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COMPTROLLER GENERAL OF THE UNITED STATES
WASHINGTON D.C. 20548

B-202428

SEPTEMBER 30, 1985

To the President of the Senate and the
Speaker of the House of Representatives

Subject: Our Seventh Annual Review of Interior's
Methodology for Allowing OCS Wells to be Shut in
or to Flare Natural Gas (GAO/RCED-85-161)

In accordance with the Outer Continental Shelf (OCS) Lands Act Amendments of 1978, we are providing our seventh annual report to the Congress evaluating the methodology that the Department of the Interior uses in allowing offshore oil and gas wells to be suspended from production (shut in) or to burn off (flare) natural gas. (See enclosure I for a list of our previous reports.) We continue to believe, as indicated in our prior reports, that Interior's methodology is reasonable and that the legislative requirements that Interior annually report on OCS shut-in and flaring wells and that we annually evaluate Interior's methodology should be repealed.

Interior's Minerals Management Service (MMS) has primary responsibility for monitoring OCS lease activities, including shut-in and flaring wells. Our review was conducted primarily at the MMS Gulf of Mexico OCS regional office in Metairie, Louisiana. About 92 percent of the 3,930 producing offshore oil wells and all but 8 of the 3,178 producing offshore gas wells are in the Gulf of Mexico.

We examined applicable regulations, policies, procedures, and records, such as lease operator reports on shut-in and flaring wells, MMS platform inspection reports, and lease operator flaring requests to and approvals from MMS. In addition, we interviewed MMS regional officials responsible for Interior's oversight of shut-in and flaring wells. We conducted our review from May through July 1985 in accordance with generally accepted government auditing standards.

INTERIOR'S METHODOLOGY

As in past years, Interior relies primarily on shut-in and flaring well data submitted by well operators, which is verified through routine onsite well inspections by MMS inspectors.

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Shut-in wells

Interior allows or directs wells to be shut in for such reasons as safety, conservation, and pollution prevention. In addition, Interior may allow a well to be shut in to facilitate development, such as when the operator is awaiting (1) delivery or installation of equipment, (2) approval of a production permit by a government authority, or (3) development of special equipment to enhance production capability. Also, Interior may approve a well's being shut in for lack of transportation facilities if the lease operator is waiting for completion of a pipeline or is unable to use pipeline facilities for reasons beyond the operator's control.

Most wells are shut in for reasons beyond the control of the lease operator, such as production obstructions, equipment failure, or reservoir pressure decline. The primary reason for wells being shut in is sand or water obstructing the flow of oil or gas.

Interior requires operators to report monthly on the status of shut-in wells, including the reason a well is shut in and an anticipated date that restoration attempts will commence. MMS inspectors verify shut-in well status through onsite platform checks and review of platform records. OCS platforms--about 3,100 in the Gulf of Mexico--are routinely inspected.

Interior reported that shut-in wells on federal waters totaled 3,085 as of September 30, 1984. In comparison, 3,003 wells were reported shut in by Interior in fiscal year 1983. According to Interior's fiscal year 1984 report, although the number of shut-in wells has been steadily increasing, the ratio of shut-in wells to total wells has remained stable. For example, at the end of fiscal year 1977, 29 percent of all wells were shut in, while at the end of fiscal year 1984, 30 percent of all wells were shut in.

Flaring natural gas

Interior allows flaring, or burning off, of natural gas during well purgings, evaluation tests, and safety-related emergencies caused by compressor or other equipment failure or for the relief of abnormal pressure buildup. Flaring of gas-well gas is prohibited except for short-term (24 hours or less) well tests. In an emergency, gas associated with an oil well may be flared without MMS approval. However, emergency flaring for a

continuous period exceeding 72 hours or a cumulative period exceeding 144 hours in a calendar month requires MMS approval. Oil-well gas flaring during well purging and evaluation tests exceeding 24 hours also requires prior MMS approval. The flaring of oil-well gas may be approved for periods of up to 1 year provided (1) the operator has initiated a plan of action to eliminate the flaring or (2) adequate data are furnished to conclude that, without flaring, the oil production lost would result in a greater total energy loss than if flaring were allowed and the oil were produced.

Regional office staff in Metairie, Louisiana, periodically review a 6-month summary of gas flared by well operators to assure that flaring does not become excessive. If the volume and percentage of gas flared indicate that an operator has been flaring excessively without approval, MMS requests an explanation from the operator.

The amount of gas flared in fiscal year 1984 decreased from that flared during fiscal year 1983, according to Interior's report. In fiscal year 1984, approximately 18 billion cubic feet of gas was flared, compared with 21 billion cubic feet in fiscal year 1983.

REPORTING REQUIREMENTS SHOULD BE REPEALED

Section 15(1)(D) of the OCS Lands Act and Section 601(a) of the OCS Lands Act Amendments of 1978 require the Secretary of the Interior to annually report to the Congress on shut-in and flaring wells. Section 601(b) of the amendments requires the Comptroller General of the United States to annually review, evaluate, and report to the Congress on the methodology the Secretary of the Interior uses in allowing OCS wells to be shut in or to flare natural gas. Our last five reports have questioned the usefulness of Interior's annual report. In each report we recommended that the Congress repeal Section 15(1)(D) of the OCS Lands Act, as amended, and Sections 601(a) and (b) of the OCS Lands Act Amendments of 1978.

Bills to eliminate the reporting requirements were introduced in the House and in the Senate in the 97th Congress. However, House and Senate committee staff told us that congressional efforts to eliminate the reporting requirements were overshadowed by more pressing legislation. A similar bill, H.R. 6189, was introduced in the 98th Congress, but was not

enacted. Two bills, H.R. 1983 and S. 1068, which would repeal the reporting requirements, have been introduced in the 99th Congress. H.R. 1983 was referred to Subcommittee on April 16, 1985, and S. 1068 was passed by the Senate on July 9, 1985.

Eliminating Interior's reporting requirement would not diminish Interior's responsibility under the amendments for administering mineral exploration and development and conserving the natural resources of the OCS. Interior has stated its intention to continue monitoring OCS shut-in and flaring wells even if the annual reporting requirement is repealed.

CONCLUSIONS

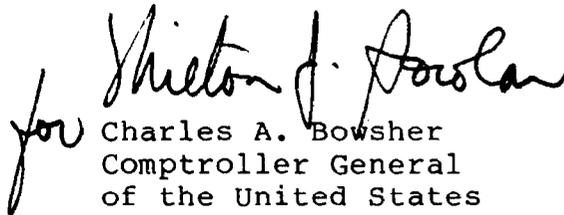
We believe that Interior's methodology for allowing OCS oil and gas wells to be shut in or to flare natural gas is reasonable. Also, we continue to support our previous recommendations that the Congress repeal Section 15(1)(D) of the OCS Lands Act, as amended, and Sections 601(a) and (b) of the OCS Lands Act Amendments of 1978. These repeals would abolish the requirements that Interior annually report on such practices and that we annually evaluate the Secretary of the Interior's methodology.

AGENCY COMMENTS

Interior agrees with our report and continues to support our previous recommendation that the Congress abolish the requirement for Interior's annual report on shut-in and flaring wells. Interior's comments are included as enclosure II of this report.

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Copies of this report are being sent to the Secretary of the Interior; the Acting Director, Office of Management and Budget; and the House and Senate Committees and Subcommittees having oversight and appropriation responsibilities for the matters discussed in the report.

for 
Charles A. Bowsher
Comptroller General
of the United States

Enclosures - 2

GAO REPORTS EVALUATING INTERIOR'SMETHODOLOGY FOR ALLOWING SHUT-IN AND FLARING WELLSREPORTS TO THE CONGRESS

Interior Lacks Adequate Oversight of Shut-In or Flaring Natural Gas Wells on the Outer Continental Shelf (EMD-80-3, Nov. 21, 1979).

Interior's Report of Shut-In or Flaring Wells Unnecessary, But Oversight Should Continue (EMD-81-63, Apr. 17, 1981).

Annual Report on Outer Continental Shelf Shut-In or Flaring Wells Is No Longer Needed (EMD-82-17, Nov. 19, 1981).

Interior's Report of Shut-In or Flaring Wells Unnecessary, But Oversight Should Continue (GAO/RCED-83-10, Oct. 5, 1982).

Congress Should Consider Eliminating Requirement for Interior's Report on Shut-In or Flaring Wells (GAO/RCED-84-19, Oct. 24, 1983).

Interior's Report on Shut-In and Flaring Wells Is Unnecessary (GAO/RCED-85-10, Oct. 30, 1984).

REPORT TO THE SECRETARY OF THE INTERIOR

Followup on Actions Taken in Response to GAO's Recommendations Concerning the Department of the Interior's March 1979 Shut-In and Flaring Wells Report (EMD-81-23, Nov. 25, 1980).



United States Department of the Interior

OFFICE OF THE SECRETARY
WASHINGTON, D.C. 20240

AUG 19 1985

Mr. J. Dexter Peach
Director, Resources, Community and
Economic Development Division
General Accounting Office
Washington, D.C. 20548

Dear Mr. Peach:

We appreciate the opportunity to review your draft report entitled "Our Seventh Annual Review of Interior's Methodology for Allowing OCS Wells to be Shut-in or to Flare Natural Gas."

This Department has previously supported your report's recommendation that the Congress abolish the requirement for Interior's annual report on shut-in and flaring wells. We continue to support this recommendation. We agree with the draft report and have no additional comments.

Sincerely,

Acting Assistant Secretary - Land and
Minerals Management